Translation
25.10.2012

PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of the Council of Administration of the NBM of October 25, 2012, the current macroeconomic situation of the Republic of Moldova and the external economic environment have been assessed, estimating the trends of the medium term macroeconomic indicators. In addition, the medium and short-term inflation outlook has been quantified, as well as some possible risks and uncertainties that may arise in the next period. As a result, the Council of Administration of the NBM adopted by unanimous vote the following decision:

1. **to maintain the base rate applied on main short-term monetary policy operations at the current level of 4.5 percent annually;**
2. **to maintain the interest rates:**
   - **on overnight loans at the current level of 7.5 percent annually;**
   - **on overnight deposits at the current level of 1.5 percent annually;**
3. **to maintain the required reserves ratio from financial means attracted in MDL and foreign currency at the current level of 14.0 percent of the base;**
4. **the next meeting of the Council of Administration on monetary policy will take place on November 29, 2012, accordingly to the approved schedule.**

Over the past eight months, the annual inflation rate was placed around the target of 5.0 percent and within the range of variation of ± 1.5 percentage points established by the National Bank.

The annual inflation rate for September 2012 reached the level of 4.9 percent or by 0.5 percentage points higher as compared to the previous month, continuing the upward trend started in July 2012. The acceleration of inflation rates was due to increasing pressure from food prices associated with adverse weather conditions during the years 2011-2012. The annual core inflation rate recorded a level of 3.6 percent[1], by 0.3 percentage points below the level recorded in August 2012, as a result of mitigating internal and external demand.

The inflationary process in 2012 was influenced by both the adaptive character of the NBM monetary policy, the exchange rate developments of the national currency and the changes in prices of oil and food markets. The inflationary pressures were mitigated by a moderation in domestic economic activity and weaker external demand.

[1] Core inflation is calculated by the NBS, excluding prices that are outside the influence of monetary policy promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices. Data established and published from January 2012 are calculated by the NBS according to the modification of Annex no.2 of "Methodology for the calculation of core inflation index", approved by joint order of the National Bank of Moldova and National Bureau of Statistics N8-07-01203/6 of January 19, 2012(the modification refers to the inclusion of prices for remote communication services and medicines in regulated prices).

• 1 Grigore Vieru Avenue • MD 2005 Chişinău • www.bnm.md • E-mail: official@bnm.md •
• Tel. (373 22) 409 006 • Fax (373 22) 220 591 •

In the second quarter of 2012, the GDP grew by 0.6 percent, thereby increasing the trend of slowing economic activity. This development was supported mainly by the increase in gross value added in industry and commerce, overlapping with a modest evolution of imports and exports. Low agricultural production and private consumption cooling affected mostly the growth in the second quarter.

Data on industrial production, domestic and foreign trade in August and September show a high probability to record an insignificant growth in the third quarter of 2012. The labor market has registered an improvement in the analyzed period. Thus, the annual average real wage in the economy rose from 4.2 percent in the second quarter of 2012 to 5.7 percent in August 2012.

In the third quarter of 2012, the volume of new granted loans amounted to 6669.3 million lei, decreasing by 0.5 percent as compared to the previous quarter. This development was due to the unfavorable evolution of credits in national currency, which decreased by 3.9 percent, partially offset by the increase of credits in foreign currency by 4.9 percent.

The new attracted deposits constituted 9641.9 million lei in the third quarter of 2012, increasing by 0.8 percent compared to the second quarter of this year. Thus, foreign currency deposits rose by 7.3 percent, while those in national currency decreased by 4.4 percent as compared to the previous quarter.

As of September 30, 2012, the balance of credits and deposits showed a robust annual growth of 15.5 percent and 14.1 percent, respectively.

The average interest rates applied by banks on national currency operations during the third quarter of 2012 had a slow downward trend, so that the average rate on new granted loans recorded in September 2012 a new historic low of 12.58 percent, decreasing by 1.1 percentage points as compared to the end of June 2012. At the same time, the average rates on new attracted deposits constituted 7.94 percent, by 0.35 percentage points higher than in June 2012.

External macroeconomic vulnerability marked by uncertainty of sustainable resolution of the euro zone sovereign debt crisis and the worsening global growth outlook emphasize the asymmetry of risks to inflation in the medium term. Rising international prices for food and oil, amid unfavorable weather conditions and the tensions in the Middle East, are major risks of inflationary pressures. However, disinflationary pressures will arise from weak aggregate demand, which will be placed below its potential level until the end of 2014.

Assessing the short and medium term prospects of inflation, the Council of Administration of the National Bank of Moldova decided within the meeting of October 25, 2012, by unanimous vote, to keep the monetary policy rate at the current level of 4.5 percent annually and to keep the required reserves ratio in MDL and foreign currency at the current level of 14.0 percent of the base.

• 1 Grigore Vieru Avenue • MD 2005 Chişinău • www.bnm.md • E-mail: official@bnm.md •
• Tel. (373 22) 409 006 • Fax (373 22) 220 591 •

This decision aims to ensure appropriate monetary conditions to stimulate lending process and boost domestic demand and anchoring inflation expectations in terms of strengthening the prospects of keeping inflation within the range of variation of ± 1.5 percentage points against a target of 5.0 percent.

In order to support proper functioning of the interbank money market, the NBM will continue to manage firmly the excess liquidity through sterilization operations.

At the same time, the NBM will continue to offer banks liquidity, according to the announced schedule for the years 2012-2013, through REPO operations within 28 days, at a fixed rate, equal to the base rate of the NBM plus a margin of 0.25 percentage points.

The aggregate demand will continue to exercise disinflationary pressures in the coming quarters. However, the evolution over the expectations of international oil prices and anticipation of a greater impact of weather conditions on local food prices next year, led the National Bank to revise upward the medium-term inflation forecast. Thus, the current projection places the annual inflation rate at the level of 4.1 percent at the end of 2012 and 5.3 percent at the end of 2013, by 0.2 and 1.4 percentage points higher as compared to the previous round of projection. Over the next eight quarters the inflation projection will be placed within the range of variation of ± 1.5 percentage points from the target of 5.0 percent, with a possible temporary exceeding of the upper limit in the second quarter of 2013.

In case of a significant deviation risk of the inflation forecast from the target in the medium term, the NBM will use the range of available measures to bring the inflation back within the objective range.

A more detailed assessment of the macroeconomic situation, medium-term forecast of inflation and possible risks and challenges the monetary policy will face in the future will be presented in the Inflation Report no. 4, which will be published as planned on November 1, 2012.

• 1 Grigore Vieru Avenue • MD 2005 Chişinău • www.bnm.md • E-mail: official@bnm.md •
• Tel. (373 22) 409 006 • Fax (373 22) 220 591 •